

Home-Equity Loan Quiz Instructions

Overview

Participants recall what they learned about home-equity loans after they have learned about this subject.

Time

5–10 minutes

Debriefing

Did this activity help reinforce what you learned about home-equity loans?

Materials

- Copies of the “Home-Equity Loan Quiz” for all participants
- Pencils

Set Up

Make enough copies of the “Home-Equity Loan Quiz” page for all participants.

Activity

- Give each participant a copy of the quiz.
- Explain to the participants that they are to indicate whether they think the answers are true or false.
- Conduct the quiz.
- After five minutes, ask for participants’ answers.
- Review the correct answers.

Home-Equity Loan Quiz

1. When you borrow against your home equity, your new payments will probably be lower.
 True False
2. The interest rate on a cash-out refinance loan is usually higher than the rate for the loan that is being paid off.
 True False
3. A home-equity loan and a home-equity line of credit are the same thing.
 True False
4. Anyone can get a reverse mortgage.
 True False
5. If you need to make repairs to your home, your only option is to draw on your home equity to pay for the repairs.
 True False
6. Using your home equity to consolidate debts usually leads to lower total interest costs.
 True False
7. The only way to determine your home's value is to hire an appraiser.
 True False
8. If your home is valued at \$230,000, and you presently owe \$180,000, you have \$180,000 in home equity.
 True False
9. When you borrow against your home equity and fail to make the loan payments, you could lose your home.
 True False
10. If you need to pay for something that will take time and require multiple payments, like college tuition over four years, a home-equity line of credit is probably a good option for you.
 True False

Home-Equity Loan Quiz — Answer Key

1. False. When you are converting your equity to cash, you are borrowing more money, not saving money. Your new monthly payments will probably be higher, and your interest rate may also be higher.
2. True.
3. False. A home-equity loan is where you borrow a set amount of money. A home-equity line of credit is a specialized form of a home-equity loan, where the balance can go up or down.
4. False. A reverse mortgage is available only if all the owners on the title to the home are at least 62 years old.
5. False. You may have other options. Depending on the situation, repairs may be covered under a home warranty or manufacturer warranties, your homeowners insurance policy, or a homeowners association's insurance policy. Or, there may be grants or low-interest loans available through a local nonprofit or government agency.
6. False. Using your home equity to consolidate debts often leads to higher total interest costs. If you wrap your credit balances into a 30-year, cash-out refinance loan, you will have a longer term and higher long-term costs.
7. False. To get a free, fairly accurate estimate of your home's value, you can check with your local tax assessor's office or a local real estate professional.
8. False. The difference between your home's value and your loan balance is your home equity. In this case, you would have \$50,000 in home equity (\$230,000–\$180,000).
9. True.
10. True.